

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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AUG 18 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:)	
)	
Access Charge Reform)	CC Docket No. 92-262
)	
Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure and Pricing)	CC Docket No. 91-213
)	
End User Common Line Charges)	CC Docket No. 95-72

COMMENTS OF
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY
ON PETITIONS FOR RECONSIDERATION

The Southern New England Telephone Company (SNET) respectfully submits these Comments addressing certain issues raised in Petitions for Reconsideration filed in response to the Federal Communications Commission's (Commission) Second Report and Order in CC Docket No. 96-262.¹ In these Comments, SNET will explain that:

- i) application of the Primary Interexchange Carrier Charge (PICC) for Centrex customers should be based on a line to trunk equivalency relationship or on Network Access Registers (NARs); ii) retail marketing expenses should be recovered from all lines;
- iii) the Commission's transition to the long term transport structure is appropriate;
- iv) historical base period revenues and demand, rather than projected values, should be utilized in the development of all access charges, including PICCs and SLCs; and v) costs

¹ In the Matter of Access Charge Reform, CC Docket No. 96-262, Second Report and Order (released May 21, 1997) (Order).

associated with density zone rate differentials should not be reassigned from the Transport Interconnection Charge (TIC) to direct trunking or tandem transport rates.

In addition to its Comments filed today, SNET supports the comments filed by the United States Telephone Association (USTA) in this proceeding.

I. THE COMMISSION SHOULD ALLOW LECS TO REFLECT TRUNK EQUIVALENCY WHEN CALCULATING THE PICC ON CENTREX LINES.

SNET supports USTA's proposal to either i) allow LECs to utilize a line to trunk equivalency relationship when calculating the PICC on Centrex lines; or ii) assess the PICC on NARs rather than station lines for Centrex customers.² The Order requires that the PICC be applied on a per line basis.³ However, when the PICC is applied to Centrex lines in such a manner, a disproportionate assessment results for Centrex customers, as opposed to similarly-sized Private Branch Exchange (PBX) customers. This poses an additional burden on Centrex customers and also creates market distortions. However, if the PICC is assessed on Centrex lines using a line to trunk equivalency ratio and LECs are allowed to count NARs for purposes of assessing the PICC on Centrex customers, this problem can be avoided.

² USTA Petition for Reconsideration and/or Clarification at 2. The Petitions for Reconsideration filed by the International Communications Association (ICA) and the County of Los Angeles also address concerns that the "Commission's decision to disproportionately apply PICCs to Centrex systems disadvantages the competitiveness of Centrex systems." ICA Petition for Reconsideration at 3.

³ Section 69.153.

II. RETAIL MARKETING EXPENSES SHOULD BE RECOVERED FROM ALL LINES.

The Order precludes recovery of marketing expenses from single line residence and business customers. SNET supports USTA's proposal that retail marketing expenses should be recovered from all lines.⁴ As USTA has stated, retail marketing expenses represent real costs incurred in the provision of service to all markets and customer segments, including the costs LECs incur in marketing access directly to IXCs.⁵ Furthermore, as USTA has pointed out, there is no factual basis for limiting recovery of retail marketing expenses to only multi-line business and non-primary residence lines.⁶ Thus, allowing retail marketing expenses to be recovered from all lines is a more reasoned approach to the recovery of marketing expenses.

III. THE COMMISSION IS CORRECT IN NOT DELAYING THE TRANSITION TO THE LONG TERM TRANSPORT STRUCTURE.

The Commission is correct in not delaying the transition to the long term transport structure. Certain parties to this proceeding have argued that the Commission should once again postpone or even eliminate the long overdue transition to the long term transport structure.⁷ Specifically, Comptel erroneously argues that the new structure constitutes an economic penalty on smaller long distance carriers and that it is unfair to force tandem-switched transport users to pay for "actual" tandem routing when it is the ILEC's decision, rather than the user's decision, as to how many tandems to install and

⁴ USTA Petition for Reconsideration and/or Clarification at 6-7.

⁵ Id. at 7.

⁶ Id.

⁷ These parties include Comptel, Frontier, WorldCom, ALTS, and Excel.

where to place them.⁸ Also, Frontier mistakenly argues that dedicated transport facilities are not “dedicated” but, rather, are common.⁹

The long term transport structure has been deferred for almost fourteen years and is long overdue. Smaller carriers have had sufficient time to establish new Point of Presence (POP) locations. These carriers have also had many opportunities to obtain more economical transport services. Frontier is simply wrong when it asserts that only AT&T, and possibly MCI and Sprint, are able to take advantage of direct trunk transport.¹⁰ Many smaller carriers have found it economical to lease or share dedicated facilities. For example, SNET provides Feature Group D (FGD) access service to approximately 175 IXCs, but the majority of these carriers (about 130) also utilize the facilities of other IXCs. Competitive tandem providers offer real alternatives to ILEC tandem switching and tandem transport, offering smaller carriers the ability to aggregate traffic and route it directly and more economically to ILEC end offices.

Frontier is also incorrect in its overly broad assertion that common and dedicated traffic are virtually identical. Frontier claims that both common and dedicated users’ traffic on a synchronous optical network ring are provided a dedicated time slot -- rendering that time slot or transport capacity unavailable to the LEC or other purposes.¹¹ While it is true that any common traffic which is carried on a SONET transport facility is allocated a time slot just as dedicated transport is allocated a time slot, that is not the

⁸ Comptel Petition for Reconsideration at 11-15.

⁹ Frontier Petition for Reconsideration at 3-8.

¹⁰ Frontier Petition for Reconsideration at 7.

¹¹ *Id.* at 4.

significance of the issue at hand. What is at issue is rate structure. Under the dedicated transport rate structure, if a LEC leases a DS3 dedicated transport facility, that customer will have access to that much capacity through the network on a dedicated basis without exception, regardless of whether it is transported over different time slots as it traverses various rings through the network.

A failure to transition to the cost-based long term transport structure will simply perpetuate a system of arbitrary and uneconomic subsidies. This would be contrary to the goal of both the Commission and of Congress, as embodied in the Telecommunications Act of 1996,¹² to eliminate such subsidies.

IV. BASE PERIOD REVENUES AND DEMAND SHOULD BE UTILIZED IN FUTURE PICC AND SLC RATE CALCULATIONS.

SNET supports Sprint's request that projected subscriber lines should not be utilized in the PICC rate calculation because, unless both the numerator and denominator are consistent, the PICC is likely to decline year to year.¹³ Furthermore, projected annual revenues should not be utilized in the rate development of SLCs, because the use of historical base period quantities is more consistent with long-established price cap rules and is less contentious.¹⁴ Thus, historical base period demand and revenue quantities should be used for all calculations.

¹² Pub. L. No. 104-104, 110 Stat. 56 (1996).

¹³ Sprint Petition for Reconsideration at 6.

¹⁴ Other Part 69 rule references to projected values also appear inappropriate, particularly when the numerator and denominator are inconsistent. For example, Rule 69.106(f)(1)(ii) calls for shared trunk port charges to be derived by dividing projected port costs by historical minutes. Also, Rule 69.106(f)(2) references projected revenues divided by historical minutes.

Moreover, the Commission has acknowledged in moving to price cap regulation, that the use of forecasted data is contentious and time consuming for LECs, customers and Commission staff. The Commission's rules continue to require a price cap LEC to project its Base Factor Portion (BFP) revenue requirement and its end user common line (EUCL) demand in order to determine common line charges; while other price cap charges are determined by the use of historical data.¹⁵ The many difficulties associated with the use of forecasted quantities are well documented and have been noted in the recent 1997 Annual Access Designation Order.

V. REVENUE ASSOCIATED WITH DENSITY ZONE RATE DIFFERENTIALS SHOULD NOT BE REASSIGNED FROM THE TIC TO DIRECT TRUNKING OR TANDEM TRANSPORT RATES.

SNET also supports Sprint's objection to the Commission's directive to reassign costs associated with density zone rate differentials from the TIC to direct trunking or tandem transport rates.¹⁶ SNET questions the basis of this requirement. Like Sprint, SNET assumes that the amount of "costs"¹⁷ that must be removed from the TIC is equal to the differential between high and low density rates for a particular type of transport, times the low-density demand. LECs such as SNET, which have already deaveraged their rates, will either have to: 1) reallocate the revenue requirement to low density zones, apparently triggering another TIC reduction; or 2) apply uniform rate increases, raising

¹⁵ In the Matter of 1997 Annual Access Tariff Filings, Order Designating Issues for Reconsideration Memorandum Opinion and Order on Reconsideration, CC Docket No. 97-149, ¶ 4 (released July 28, 1997) (1997 Annual Access Designation Order).

¹⁶ Sprint Petition for Reconsideration at 8.

¹⁷ Section 69.123(f)(1).

high density zone rates above cost to recover costs allegedly attributable to low density areas.

This requirement is based on the assumption that special access rates (and thus original dedicated switched transport rates) do not fully reflect the costs of switched transport. While this may or may not be true of SNET's rates at the inception of the local transport restructure, there is no longer any direct tie between current deaveraged rates and costs. SNET's dedicated switched transport rates have been deaveraged for several years and are governed solely by price cap rules. Moreover, SNET reduced rates in all zone categories below the original averaged rates upon which the TIC was established. Indeed, there would appear to be no end to the potential TIC reductions for such rate differentials. SNET's TIC could be eliminated on this basis even before removal of known TIC components, such as the tandem revenue requirement. A reduction to the TIC based on the current density rate differential appears to be purely arbitrary. Thus, SNET supports Sprint's request that the Commission eliminate this requirement.

VI. CONCLUSION

For the reasons set forth above, SNET urges the Commission to hold that:

- i) application of the PICC for Centrex customers should be based on a line to trunk equivalency relationship or on NARs; ii) retail marketing expenses should be recovered from all lines; iii) the Commission's transition to the long term transport structure is appropriate; iv) historical base period revenues and demand, rather than projected values, should be utilized in the development of PICCs and SLCs; and v) costs associated with

density zone rate differentials should not be reassigned from the TIC to direct trunking or tandem transport rates.

Respectfully submitted,

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August 18, 1997

CERTIFICATE OF SERVICE

I, Melanie G. Abbott, do hereby certify that on this 18th day of August, 1997, a copy of the foregoing Comments of The Southern New England Telephone Company on Petitions for Reconsideration was served by U.S. First Class mail, postage prepaid, to the parties listed on the attached Service List.

A handwritten signature in cursive script, reading "Melanie G. Abbott", written over a horizontal line.

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